

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 PM-07 INR-10 L-03 NEA-10

NSAE-00 PA-04 RSC-01 PRS-01 SPC-03 USIA-15 TRSE-00

SAJ-01 EB-11 SS-20 NSC-10 OMB-01 DRC-01 /124 W

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FM USMISSION NATO

TO SECSTATE WASHDC PRIORITY 2239

SECDEF WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY ROME

USNMR SHAPE

C O N F I D E N T I A L SECTION 1 OF 2 USNATO 5024

E.O. 11652: GDS: 12-31-79

TAGS: MCAP, NATO

SUBJ: BURDENSARING: MEETING OF THE STUDY GROUP, 18 OCT 73

REF: A. USNATO 4939

B. STATE 204941

SUMMARY. THE GROUP REACHED AGREEMENT ON VERSION OF REPORT TO BE SUBMITTED TO COUNCIL FOR ITS CONSIDERATION AT MEETING OF 24 OCT. DISCUSSION CENTERED UPON STATUS TO BE ACCORDED EXPENDITURES BY EUROPEAN COMMERCIAL FIRMS FOR PROCUREMENT IN THE UNITED STATES OF DEFENSE MATERIEL AND UPON RESOLUTION OF US-FRG DIFFERENCES ON "FULLY OFFSET" LANGUAGE OF PARAGRAPH 13. END SUMMARY.

1. SUBJECT TO REDRAFT OF PARAGRAPH 13 AND TO MINOR MODIFICATIONS, THE STUDY GROUP AGREED TO FORWARD REPORT TO THE COUNCIL FOR CONSIDERATION AT ITS MEETING OF 24 OCTOBER.

2. PARAGRAPH 13 WAS REDRAFTED TO NOTE EXPENDITURES BY EUROPEAN COMMERCIAL FIRMS FOR PROCUREMENT IN THE UNITED STATES OF DEFENSE MATERIEL IN FULFILLMENT OF CONTRACTS WITH THEIR DEFENSE CONFIDENTIAL

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MINISTRIES. SUCH EXPENDITURES WERE REPORTED BY TWO NATIONS -- ITALY AND BELGIUM -- IN THE AMOUNT OF \$50 MILLION IN 1972. U.S. OPPOSITION TO INCLUSION OF PAYMENTS BY NON-GOVERNMENTAL AGENCIES TO U.S. FIRMS AS MILITARY BOP RECEIPTS IS ALSO NOTED.

3. THE GROUP AGREED TO DELETION IN PARAGRAPH 13 OF "FULLY" FROM PHRASE "CONSIDERED AS FULLY OFFSET BY THE PROVISIONS OF THE US-GERMAN OFFSET AGREEMENT" AND THE INSERTION OF THE FOLLOWING FOOT-NOTE: "IN THE VIEW OF THE GERMAN AUTHORITIES IT HAD BEEN AGREED BETWEEN THE TWO PARTIES THAT A FULL OFFSET HAD BEEN ACHIEVED. IN THE UNITED STATES' VIEW A FULL OFFSET WAS NOT ACHIEVED."

4. THE GROUP AGREED TO INCORPORATE ALTERNATIVE VERSIONS OF PARAGRAPH 23, I.E., BOTH FRG VERSION AS SET FORTH IN 5 OCTOBER DRAFT AND VERSION PROVIDED IN WASHINGTON GUIDANCE.

5. THE SUMMARY (WHICH FAIRLY REFLECTS CONTENTS OF THE REPORT) AND THE RECOMMENDATIONS FOLLOW IN FULL:

#### SUMMARY

67. THIS STUDY HAS BEEN UNDERTAKEN FOLLOWING A REQUEST BY THE UNITED STATES THAT THE ALLIANCE SHOULD SEEK WAYS AND MEANS TO ALLEVIATE THE BALANCE OF PAYMENTS AND BUDGETARY BURDEN INCURRED BY THE UNITED STATES IN STATIONING TROOPS IN EUROPE, IN ACCORDANCE WITH THE GENERAL PRINCIPLE STATED BY PRESIDENT NIXON IN MAY 1973 THAT THE BALANCE OF PAYMENTS CONSEQUENCES FROM STATIONING UNITED STATES FORCES IN EUROPE SHOULD NOT BE SUBSTANTIALLY DIFFERENT FROM THOSE OF MAINTAINING THE SAME FORCES IN THE UNITED STATES.

68. THE PRINCIPAL FACTS AND FIGURES ESTABLISHED IN THIS STUDY IN RELATION TO THE MAIN AREAS OF CONCERN TO THE UNITED STATES CAN BE SUMMARISED AS FOLLOWS:

#### GENERAL

(A) FORCES OF THE UNITED STATES HAVE BEEN STATIONED IN WESTERN EUROPE CONTINUOUSLY SINCE WORLD WAR II. THE TOTAL OF THESE FORCES ON 30TH JUNE, 1973 WAS 309,000. IN ADDITION 10,000 MORE UNITED STATES  
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FORCES ARE STATIONED IN NON-NATO AREAS IN AND ADJACENT TO EUROPE WHOSE PRESENCE ADDS TO THE EFFECTIVENESS OF NATO'S DETERRENT.

(B) THE UNITED STATES SEEKS AN ARRANGEMENT COVERING SUBSTANTIALLY ALL FUTURE NATO-RELATED MILITARY BALANCE OF PAYMENTS EXPENDITURES ESTIMATED TO BE APPROXIMATELY \$2.5 BILLION (BEFORE OFFSET) IN FISCAL YEAR 1974 OF WHICH AT LEAST \$440 MILLION WOULD BE IN THE FORM OF DIRECT BUDGETARY SUPPORT MEASURES.

#### BALANCE OF PAYMENTS

(C) AS REPORTED BY THE UNITED STATES THE NET BALANCE OF PAYMENTS DEFICIT ON MILITARY ACCOUNT WITH NATO EUROPE IN 1972 WAS \$1,474 MILLION; THIS TAKES ACCOUNT OF TRANSACTIONS COVERED BY GOVERNMENT-TO-GOVERNMENT AGREEMENTS. HOWEVER EUROPEAN NATIONS HAVE IDENTIFIED ADDITIONAL UNITED STATES RECEIPTS FROM THE SALE OF MILITARY EQUIPMENT WHICH REDUCES THIS NET DEFICIT TO \$1,307 MILLION. THIS FIGURE WOULD PROBABLY BE REDUCED STILL FURTHER IF CERTAIN ADDITIONAL MILITARY PROCUREMENT TRANSACTIONS (SEE PARAGRAPH 14) ARE TAKEN INTO ACCOUNT. NONE OF THESE FIGURES TAKE INTO ACCOUNT THE NON-MILITARY ELEMENTS OF THE US/GERMAN OFFSET AGREEMENT (SEE (D) BELOW).

(D) THE RECENT US/GERMAN AGREEMENT, WHICH EXPIRED ON 30TH JUNE, 1973, PROVIDED AN OFFSET FOR THE STATIONING COSTS OF UNITED STATES FORCES ON THE TERRITORY OF THE FEDERAL REPUBLIC OF GERMANY (SEE PARAGRAPH 15) ESTIMATED AT \$2.7 BILLION OVER THE TWO FISCAL YEARS 1971/1972 AND 1972/1973 (SEE ANNEX II, TABLE 3). THIS AGREEMENT REQUIRED THE PAYMENT BY THE FEDERAL REPUBLIC OF GERMANY OF DM. 6,650 MILLION (\$2,065 MILLION AT THE CURRENT EXCHANGE RATE) OVER THE SAME PERIOD. OF THIS TOTAL DM. 2,000 MILLION (\$621 MILLION) WAS IN THE FORM OF REPAYABLE LOANS. THERE ARE VARYING INTERPRETATIONS (SEE PARAGRAPHS 15 AND 25) AS TO THE EFFECT OF THIS  
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TWO-YEAR OFFSET AGREEMENT ON THE NET BALANCE OF PAYMENTS DEFICIT ON MILITARY ACCOUNT SET OUT IN SUB-PARAGRAPH (B) ABOVE.

(E) UNDER STATIONING OF FORCES AGREEMENTS THE UNITED STATES ARE PROVIDED WITH VARIOUS SERVICES AND FACILITIES. THE DEFICIT ON MILITARY ACCOUNT OF THE UNITED STATES WOULD HAVE BEEN HIGHER IF THE UNITED STATES HAD HAD TO PAY FOR THESE FACILITIES AND SERVICES (SEE ANNEXES IV AND V).

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SAJ-01 EB-11 SS-20 NSC-10 OMB-01 DRC-01 /124 W

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INFO AMEMBASSY BONN

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(F) DURING THE LAST TWO DECADES, THE UNITED STATES BASIC BALANCE OF PAYMENTS HAS BEEN IN DEFICIT FOR EVERY YEAR EXCEPT ONE. IN 1972 THIS DEFICIT WAS \$9.8 BILLION. SINCE 1970 THE UNITED STATES BASIC BALANCE WITH WESTERN EUROPE HAS ALSO DEVELOPED UNFAVOURABLY REACHING A DEFICIT OF NEARLY \$2 BILLION IN 1972. HOWEVER ACCORDING TO THE UNITED STATES SECRETARY OF THE TREASURY PROSPECTS HAVE GREATLY IMPROVED OVER THE FIRST HALF OF 1973 AND SURPLUSES IN BOTH THE UNITED STATES TRADE AND BASIC PAYMENTS POSITION ARE IN SIGHT. IN THE VIEW OF THE UNITED STATES HOWEVER PROBLEMS RESULTING FROM ITS PAST BALANCE OF PAYMENTS DEFICIT WILL PERSIST AND CONSEQUENTLY THE PRESENT IMPROVEMENT IN THE OVERALL BALANCE OF PAYMENTS POSITION DOES NOT AFFECT THE BASIS OF THE REQUEST BY THE UNITED STATES GOVERNMENT.

(G) THE VARIOUS REALIGNMENTS OF THE PARITIES OF THE MAJOR CURRENCIES DURING THE LAST FEW YEARS HAVE BEEN A FACTOR IN THE IMPROVEMENT OF THE UNITED  
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STATES COMPETITIVE POSITION ON THE EXPORT MARKET AND THUS ON THEIR OVERALL BALANCE OF PAYMENTS OUTLOOK. ON THE OTHER HAND, THEIR EFFECT IS TO INCREASE THE COST TO THE UNITED STATES OF STATIONING THEIR FORCES IN EUROPE AND THE SIZE OF THEIR BALANCE OF PAYMENTS DEFICIT ON MILITARY ACCOUNT.

BUDGETARY ASPECTS

(H) THE UNITED STATES ESTIMATE THAT THE ADDITIONAL BUDGETARY EXPENDITURES INCURRED BY THE STATIONING OF UNITED STATES TROOPS IN NATO EUROPEAN COUNTRIES WILL AMOUNT TO \$440 MILLION IN FISCAL YEAR 1974.

(I) THE ADDED BUDGETARY COST TO THE UNITED STATES

RELATED TO THE STATIONING OF THEIR FORCES IN EUROPE WOULD BE CONSIDERABLY HIGHER IF THE UNITED STATES HAD TO BEAR THE COST OF SERVICES AND FACILITIES NOW PROVIDED UNDER THE STATIONING OF FORCES AGREEMENTS (SEE SUB-PARAGRAPH (C) (E) ABOVE).

(J) THE ABOVE ESTIMATE DOES NOT ATTEMPT TO ASSESS THE EXTRA COST THAT WOULD BE INCURRED BY THE UNITED STATES IF THEIR FORCES IN EUROPE WERE WITHDRAWN BUT MAINTAINED READY FOR SPEEDY INTERVENTION IN EUROPE.

#### FORCE IMPROVEMENTS

(K) ALTHOUGH IMPROVEMENTS IN THE DEFENCE FORCES OF THEIR ALLIES DO NOT PROVIDE DIRECT SUPPORT FOR THE UNITED STATES BUDGETARY OR BALANCE OF PAYMENTS PROBLEM, THE UNITED STATES GOVERNMENT HAS MADE IT CLEAR THAT THEY ATTACH CONSIDERABLE IMPORTANCE TO SUCH IMPROVEMENTS AS A METHOD OF BURDEN-SHARING.

69. THE OPTIONS SET OUT IN THIS REPORT PRESENT TO THE COUNCIL A RANGE OF MEASURES WHICH WOULD, IF IMPLEMENTED, COMPENSATE FOR THE ADDITIONAL BUDGETARY AND BALANCE OF CONFIDENTIAL

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PAYMENTS BURDENS OF THE UNITED STATES ARISING FROM THE MAINTENANCE OF SUBSTANTIAL NUMBERS OF ITS FORCES IN EUROPE. SHOULD IT BE DECIDED THAT SOME OR ALL OF THESE MEASURES MERIT FURTHER CONSIDERATION THEN THE COUNCIL WILL NEED TO GIVE THE NECESSARY DIRECTION; IN THE CASE OF SOME OPTIONS THE COUNCIL MAY FEEL ABLE TO TAKE A DECISION IN PRINCIPLE ON THE BASIS OF INFORMATION PROVIDED IN THIS REPORT; IN OTHER CASES THE COUNCIL MAY WISH TO GIVE DIRECTION FOR FURTHER STUDY BY EXISTING NATO BODIES SUCH AS THE INFRASTRUCTURE COMMITTEE.

#### RECOMMENDATIONS

70. IT IS RECOMMEND THAT THE COUNCIL:

(A) TAKE NOTE OF THE INFORMATION CONTAINED IN THIS REPORT, AND AT ITS ANNEXES, CONCERNING THE UNITED STATES BUDGETARY AND BALANCE OF PAYMENTS PROBLEMS;

(B) CONSIDER THE VARIOUS OPTIONS SET OUT AND MAKE RECOMMENDATIONS ACCORDINGLY.

USNATO COMMENT. IT NOW APPEARS THAT THREE MAIN ISSUES MAY ARISE IN UPCOMING COUNCIL DISCUSSION OF REPORT. THE FIRST

OF THESE IS DETERMINED FRG EFFORT TO MINIMIZE US PROBLEM BY  
CONTENDING THAT OFFSET AGREEMENT WITH FRG FOR 1971 FULLY  
OFFSET US MILITARY EXPENDITURES IN FRG. THE SECOND ISSUE IS  
THE ONE PRESAGED BY BELGIAN AND ITALIAN DEMONSTRATION THAT,  
TAKING INTO ACCOUNT MILITARY PURCHASES IN US THROUGH COMMERCIAL  
CHANNELS BY BELGIIN AND ITALIAN FIRMS, DEFICITS FOR THOS COUNTRIES  
DISAPPEAR. THE THIRD AREA IS THE INCREASING IMPORTANCE THAT  
SERVERAL ALLIES ARE ATTACHING TO ECONOMIC FORECASTS THAT AS  
A RESULT OF REALIGNMENT OF EXCHANGE RATES THE OVERALL US BALANCE  
OF PAYMENTS SITUATION SHOULD SOON REACH A SURPLUS POSITION.  
IT IS HOPED THAT THE JACKSON-NUNN AMENDMENT MAY SERVE TO MAKE  
CLEAR TO OUR ALLIES THAT SUCH REASONING WILL NOT SATISFY  
THE CONGRESSIONAL REQUIREMENTS FOR REAL FINANCIAL RELIEF TO  
THE US ON THE MILITARY ACCOUNT IF REDUCTIONS IN THE NUMBERS  
OF US FORCES STATIONED IN EUROPE ARE TO BE AVOIDED. END COMMENT.

6. FULL TEXT OF REPORT WILL BE SENT TO WASHINGTON AS SOON AS  
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AVAILABLE. WASHINGTON COMMENT AND GUIDANCE ON SUMMARY WELCOME.  
FURTHER MESSAGE ADDRESSES PROBLEM OF NEXT STEPS TO BE TAKEN BY  
U.S. WHEN STUDY GROUP REPORT REACHES THE NAC ON WEDNESDAY,  
OCTOBER 24. RUMSFELD

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